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Canada at War

BY JAMES FREDERICK GREEN

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THE establishment of a Canadian-American defense board, following the conference of Prime Minister Mackenzie King and President Roosevelt at Ogdensburg, New York, on August 17-18, profoundly affects the relations of these two North American nations. Whatever the immediate outcome of the Battle of Britain, Canada and the United States will undertake close military and economic cooperation. This collaboration, as well as the efforts of the American government to lease naval bases in British colonies in the Western Hemisphere, may have far-reaching implications for the future relations of the British Commonwealth and the United States. It is necessary, therefore, to survey Canada's military and economic mobilization during the first year of the European war, and especially in recent months.¹

The outbreak of "total war" in Europe, involving the participation of Italy and resulting in the surrender of France in June 1940, caught Canada almost entirely unprepared. Like Great Britain, the Dominion had anticipated a long, slow war of blockade and attrition, in which the enormously superior economic resources of the British Empire would eventually defeat Nazi Germany. The Canadian government, anxious to avoid the highly controversial issue of conscription, had hoped for a war of "limited liability" and had expected to concentrate on sending material rather than men to Europe. Its preparations, particularly with regard to the Empire air training scheme, were designed to become fully effective in the second and third year of the conflict. Its misconception of German strength and strategy was due in large part to the complacency and inertia of the Chamberlain government, which failed to give sufficient "educational" orders to Canadian industry and—even after the outbreak of war—made relatively few requests for equipment. Canada's contribution is thus not fully commensurate with its resources, and can not yet compare—despite the rapid pro-

gress now being made—to its efforts in the last years of the World War.

POLITICAL DEVELOPMENTS

In order to head off criticism of his war effort and to secure a fresh mandate from the electorate, Prime Minister William L. Mackenzie King on January 25, 1940 unexpectedly secured the dissolution of Parliament, after a three-hour session, and called a general election for March 26.² This surprise election, which was generally conceded to have aroused little popular interest, increased the government's majority from 107 to 121,³ entirely at the expense of the minor parties. The distribution of seats, giving the Liberals three times as many as the combined Opposition, conveys a somewhat erroneous impression of public opinion, however, since the Liberals won only 53 per cent of the popular vote, in comparison to 47 per cent in 1935. All of the front-bench Conservatives, including the party leader, Dr. Robert J. Manion of Ontario, were defeated. As a result of this serious weakening of the Opposition, which is regretted even by many of the victorious Liberals, Parliament will be less able to criticize and supervise the government's work.

On the ground that the March 26 victory was a vindication for the personnel and policy of his government, Prime Minister Mackenzie King has resisted the demands of many newspapers and political leaders that he create a coalition or "national government." On June 18 he established a Department of National War Services to direct and coordinate such activities as the care of evacuated children and refugees, provision of comforts for soldiers, and economic use of food supplies.⁴

2. For a detailed analysis of the election, cf. *The Round Table* (London), June 1940, pp. 675-86.

3. The 1935 distribution of seats was changed as follows: Liberals, increased from 176 to 183; Conservatives, increased from 39 to 40; C.C.F. (Socialist), increased from 7 to 8; Social Credit (allied with New Democracy), reduced from 16 to 9; Independents, reduced from 7 to 5.

4. *House of Commons Debates*, June 18, 1940, vol. 78, no. 24 (unrevised), p. 933.

1. For a survey of Canada's economic potential and initial military preparations, cf. James Frederick Green, "The British Dominions At War," *Foreign Policy Reports*, February 1, 1940, pp. 275-78.

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Mr. Mackenzie King further reshuffled his ministry on July 8, adding a Navy Department to which he appointed Premier Angus Macdonald of Nova Scotia, but he refused to broaden its base. The leaders of the Opposition rejected the Prime Minister's request to become associate members of the War Committee of the Cabinet, on the ground that they could not accept office without responsibility and that they could not surrender the privilege of criticism unless they were made members of a genuine coalition government.⁵ Although considerably reorganized and strengthened, the Mackenzie King ministry thus remains composed entirely of Liberals.

The government, meanwhile, took stringent measures to check subversive activities. Under the Defense of Canada Regulations, which an Order-in-Council—based on the War Measures Act of 1914—brought into effect on September 9, 1939, the government has far-reaching powers for censorship and suppression of treason and sedition.⁶ On May 23, 1940 police raided the Montreal headquarters of the National Unity party (Fascist) and one week later arrested Adrien Arcand and five other of its leaders.⁷ Similar action was taken simultaneously against the Communist party, and—after Italy's entrance into the war—against numerous Italian organizations. On June 5 the government extended the defense regulations to outlaw sixteen groups, including the National Unity and Communist parties, the League for Peace and Democracy, and various German and other foreign language clubs.⁸ The government's task was made more difficult by the decision of the British government, after consultation with the Ottawa authorities, to send German and Italian prisoners of war to Canada for internment.

CANADA'S FINANCIAL BURDEN

The effect of the Nazi *Blitzkrieg* is strikingly reflected in the Canadian budget of 1940-41. According to its supplementary war budget, presented to Parliament in September 1939, the government anticipated defense expenditures of about \$363,000,000 during the first year of the war and expected a deficit of \$156,000,000 for the fiscal year

ending March 31, 1940. Actually the government spent only \$131,000,000 for war purposes between September 10, 1939 and March 31, 1940. Since revenues as well as expenditures increased over the September estimates, the deficit for the fiscal year was only \$118,000,000.

The 1940-41 budget, however, estimated total expenditures at a minimum of \$1,148,000,000—an increase of 68 per cent over the \$681,000,000 spent in 1939-40.⁹ While war expenditures were estimated at \$700,000,000, the Finance Minister warned that an additional \$200,000,000 or more will probably be necessary. For civil expenditures, the budget provided \$448,000,000, in contrast to \$550,000,000 spent in 1939-40. Of this reduction, \$77,000,000 was made possible by drastic curtailment of public works projects, reduction of relief expenditures, and the improved position of the Canadian National Railways, already benefiting from war-time traffic.

To provide for this total expenditure, equal to between one-fourth and one-third of the national income, the government proposed an increase in both taxation and borrowing. It announced a wide variety of new and higher taxes, including the following: sharp increase in income taxes and lowering of exemptions; new "national defense tax" of 2 per cent on incomes, or 3 per cent for single persons earning over \$1,200; increase in the excess profits tax from 50 to 75 per cent on all profits in excess of a four-year average in the pre-war period; a "war exchange tax" of 10 per cent on all imports except those entered under Empire preferences; and many new or increased excise taxes. In order to free Canadian industry for war production and to conserve foreign exchange, new automobiles will be taxed—by import duty or excise tax—from 10 per cent to 80 per cent. The Finance Minister declared that this measure would virtually prohibit the sale of any but the cheapest motor cars.

Since these new taxes are expected to provide additional revenue of \$110,500,000 in the present fiscal year (or \$280,000,000 in the first full year of operation), the government's total revenue for 1940-41 is estimated at \$760,000,000. This sum leaves a deficit of \$388,000,000 in the estimated minimum expenditure of \$1,148,000,000 or a deficit of \$550,000,000 in the possible maximum expenditure. To cover this deficit, the government will

5. Text of Mr. Mackenzie King's address, *House of Commons Debates*, July 9, 1940, vol. 78, no. 37 (unrevised), pp. 1473-92. For speeches of the Opposition leaders rejecting the proposal, cf. *ibid.*, July 11, 1940, vol. 78, no. 40 (unrevised), pp. 1615-23.

6. The Regulations were made retroactive to September 3, when Great Britain became a belligerent. The government had begun internment Germans before Parliament declared war, on September 10.

7. *The New York Times*, May 24 and 31, 1940.

8. *New York Herald Tribune*, June 6, 1940. One week later the government took similar action against six Italian societies. *Ibid.*, June 13, 1940.

9. For text of the budget address by the then Finance Minister, Col. J. L. Ralston, cf. *House of Commons Debates*, June 24, 1940, vol. 78, no. 28 (unrevised), pp. 1101-30 and appendix. In connection with these figures, it should be remembered that Canada has a population of only 11,000,000—less than that of New York State, and only 8 per cent of that of the United States. For a detailed study of budgetary problems, cf. F. H. Brown, J. D. Gibson, A. F. W. Plumptre, *War Finance in Canada* (Toronto, Ryerson Press, for the Canadian Institute of International Affairs, 1940).

have to borrow heavily from the public, whose annual savings total approximately \$500,000,000.

The Canadian government's financial policy is designed to prevent the price inflation that characterized the World War and to avoid an excessive increase in the public debt. Canada's position today greatly resembles that of Great Britain one year ago. As in Britain, the government is likely to be confronted with the problem of an inflationary spiral of prices and wages, and may be compelled to prevent civilian consumption from rising as the war effort increases the national income. As Canada has not yet fully mobilized its man power and industrial capacity, it still has a considerable margin of expansion before labor shortages and factory bottlenecks appear. During the first ten months of war, moreover, the cost of living did not rise markedly in Canada, owing partly to the government's efforts to prevent price inflation.^{9a} Until the appearance of the new budget, the government had sought to restrain civilian consumption through voluntary measures—by sale of war saving certificates and stamps of small denominations, as well as long-term bonds. The present budget, however, goes far toward placing the curtailment of consumption on a compulsory basis.

DOMINION-PROVINCIAL RELATIONS

Owing partly to the Dominion's preoccupation with the war, the voluminous report of the Royal Commission on Dominion-Provincial Relations, headed by Professor Joseph Sirois, has received relatively little attention from the public and press.¹⁰ The report was tabled in the House of Commons on May 16, but no action regarding it has as yet been taken, except the unemployment insurance scheme which—in accordance with the Commission's recommendations—was enacted by Parliament in July. The Commission was appointed in 1937 to study the relations of the Dominion and Provincial governments, after a series of judgments by the Judicial Committee of the Privy Council in 1937, sustaining decisions by the Supreme Court of Canada, had invalidated several Parliamentary statutes and by implication rendered the Dominion government incompetent to deal with certain vital questions of domestic and foreign policy.

The Commission recommended that the Do-

9a. The official cost of living index (1913=100) rose as follows: August 1939, 130; June 1940, 136. Department of Labour, *The Labour Gazette*, June 1940, pp. 746-47.

10. For text, cf. Royal Commission on Dominion-Provincial Relations, *Report* (Ottawa, King's Printer, 1940. 3 vols.). For origin of the Commission, originally headed by Chief Justice Rowell of Ontario, cf. James Frederick Green, "Canada's Political Problems," *Foreign Policy Reports*, September 15, 1938, pp. 149-50.

minion take over the entire debt of each Province, except Quebec, where—because of the special circumstances—it would assume only 40 per cent of the Province's obligations. All future borrowings by the Provinces would be handled through a central commission and, if approved, would be issued with the Dominion's guarantee. The Dominion, moreover, would assume complete responsibility for relief of unemployed employables, while the Provinces and municipalities would continue to administer poor relief and care for the unemployables. To compensate for these additional duties, interest charges and unemployment payments, which would cost the Dominion about \$45,000,000 annually, the Ottawa government would receive sole power to collect income, inheritance and corporation taxes. The Dominion, finally, would assist the Provinces through national adjustment grants, renewable every five years, in place of its present subsidies to the Provinces.

Whenever the Commission's elaborate scheme is taken up in Parliament, it will undoubtedly face serious opposition, in view of the hostility of the two largest and richest Provinces, Ontario and Quebec, to any proposal for shifting relief burdens, which are usually most acute in the Prairie Provinces, to the Dominion government. The war emergency, however, provides an opportunity for instituting large-scale financial rearrangements that might arouse serious opposition in peace-time.

THE CANADIAN WAR EFFORT

As a direct consequence of the fall of France, Parliament on June 20, 1940 adopted a bill to mobilize the entire human and material resources of Canada.¹¹ While the C.C.F. and New Democracy parties sought to extend the bill to include mobilizing all financial institutions and the financing of the war by the issuance of debt-free money, only two French Canadian members of the House voted against it. Mr. Mackenzie King assured Parliament that conscription of man power would relate "solely and exclusively to the defense of Canada on our own soil and in our own territorial waters," and renewed his pledge never to conscript Canadians for foreign or overseas service.¹²

To supplement this measure, essentially an enabling act, Parliament on July 10 passed legislation establishing a Department of War Services, under which registration of man power would

11. For text of the Mobilization of Resources Act, cf. *The Gazette* (Montreal), June 19, 1940. The bill was the first to receive the Royal Assent from the Earl of Athlone, uncle of King George VI, who became Governor-General on June 21.

12. For text of the Prime Minister's address, cf. *House of Commons Debates*, June 19, 1940, vol. 78, no. 24 (unrevised), pp. 977-83.

take place.¹³ All men and women over sixteen years of age registered during the week of August 19, and provided the government information regarding their age, physical condition, occupation, etc. The Government plans to inaugurate compulsory military training in the Non-Permanent Active Militia about October 1, commencing with single men 21 years of age. While all men between 21 and 45 are liable to training, those engaged in "essential" industries are to be placed in a "deferred" classification. The training will last only 30 days, and will involve approximately 30,000 men every month.

The registration plan had dramatic repercussions in Quebec, where conscription is traditionally unpopular. Mr. Camillien Houde, Mayor of Montreal, Canada's largest city, denounced the plan on August 2, 1940, advised Montreal citizens to disregard it, and cancelled arrangements for conducting the registration in municipal buildings.¹⁴ Mayor Houde was promptly arrested and interned for violating the Defense of Canada Regulations, although it was announced that he would retain his title and salary during his internment.¹⁵ Unlike Mr. Houde, however, many leading French Canadians, including Cardinal Villeneuve, Archbishop of Montreal, publicly supported the national registration.

Even without conscription, however, Canada's military effort was notably accelerated during the spring of 1940. The Canadian army increased from a total of 90,743 in June 1940 to 154,000 on August 21.¹⁶ Of the latter number, over 40,000 were serving outside Canada, including two divisions in England, and small units in Iceland, Bermuda and the Caribbean. The Third and Fourth Divisions, now virtually completed, will be trained and equipped entirely in Canada, since—according to Defense Minister Ralston—"there is at the moment no shortage of manpower in England." The Defense Minister announced further that an eastern military command is to be established immediately, for the defense of the Maritime Provinces and Newfoundland, a British Colony.

13. *The Gazette*, July 11, 1940. For text of registration rules, cf. *The Canada Gazette* (Ottawa, King's Printer), July 27, 1940, vol. 74, no. 4, pp. 215-19.

14. *The New York Times*, August 3, 1940.

15. *Ibid.*, August 6, 1940. It is difficult to estimate the reaction of French Canadians to Mayor Houde's stand, since the final results of the national registration are not yet known. Mr. Houde, a veteran politician, probably would not have taken so drastic a step without some hope of popular support. He had lost, however, considerable power in May 1940, when the Province of Quebec placed a commissioner in charge of Montreal's badly managed financial affairs.

16. Address by the Defense Minister, Col. J. L. Ralston, *House of Commons Debates*, July 29, 1940, vol. 78, no. 52 (unrevised), pp. 2237-47; *The New York Times*, August 22, 1940.

The Royal Canadian Navy, which is serving chiefly on patrol and convoy duty, was reported on July 29 to have 113 vessels and nearly 9,000 officers and men in operation.¹⁷ Canadian shipyards were constructing 18 mine-sweepers and 64 anti-submarine patrol vessels, of which ten were for Great Britain. Canada has two destroyers on order in British shipyards, and is converting three fast passenger vessels into armed cruisers.

Expansion of the air forces and air training has been perhaps the most spectacular feature of Canada's war effort in recent months. On July 24, 1940 the Royal Canadian Air Force included 1,765 officers and 17,688 airmen, or almost double the total men in service in March 1940.¹⁸ Recruitment was reported in early July to be proceeding at the rate of 1,000 men per week.¹⁹ Contingents of the R.C.A.F. arrived in England in February and May, and others are being prepared for overseas service. The British Commonwealth Air Training Plan, originally designed as a three-year program, has been speeded up in order to increase the number of pilots available to Britain in the winter of 1940-41. Twenty-two schools are now in operation, and all airdromes, hangars, and school buildings scheduled for 1941 will be completed by the end of 1940. In late July 1940, the Training Plan included 1,216 officers, 10,524 other ranks, 2,298 civilians, and 2,643 pupils, a total increase of 79 per cent in two months. Advanced training has been delayed, however, by the inability of Great Britain to supply airplanes and engines. During the Battle of France, the Canadian government made available to Britain a considerable part of the equipment on order for the R.C.A.F. and the Air Training Plan, while a vessel bringing planes to Canada turned back in mid-Atlantic.²⁰ These deficiencies were remedied in part by Canadian and American production, while in late July it was announced that Britain intended to resume airplane shipments.²¹

ECONOMIC MOBILIZATION

Industry. Canada's economic resources will not be fully utilized in the European war until 1941, largely because of serious delays during the months immediately preceding and following the outbreak of hostilities. These delays resulted partly from the inadequate war policy of the Chamber-

17. Address by the Air Minister, Major C. G. Power, *ibid.*, July 29, 1940, vol. 78, no. 52 (unrevised), pp. 2248-55.

18. *Ibid.*, p. 2253.

19. *The Gazette* (Montreal), July 3, 1940.

20. Address of Prime Minister Mackenzie King, *House of Commons Debates*, June 4, 1940, vol. 78, no. 15 (unrevised), pp. 527-29.

21. *Ibid.*, July 29, 1940, vol. 78, no. 52 (unrevised), p. 2252.

lain cabinet, and partly from its desire to conserve foreign exchange and to benefit British factories by giving them its initial orders. Efforts of Canadian officials and businessmen to expedite production were hampered by "red tape" in London, refusals to release patents and blueprints, and frequent changes in designs.²² The British government insisted that all supplies conform to British specifications, in order to secure uniformity and to reduce difficulties of repair and replacement, rather than to American specifications, which predominate in Canadian industry. Instead of depending upon Canada as an arsenal, as in the World War, Britain planned to provide Canada with airplanes, tanks and other equipment for training purposes. On June 8, 1940, the Canadian government advised its High Commissioner in London "that Canadian plants might be utilized to a far greater extent as a source of supply for the Allied governments," and transmitted a memorandum from the Canadian Manufacturers Association urging that the Allies "should advise immediately what they want in large quantities, and give Canadian manufacturers an opportunity to learn what is expected of them."²³ During the first nine months of the conflict, the total war expenditures in Canada by both the Canadian and British governments amounted to only \$200,000,000.²⁴

Following the fall of France, Canada's economic mobilization was greatly accelerated, both by new British orders and by the determination of the Canadian government to proceed on its own initiative.²⁵ The Department of Munitions and Supplies gradually decentralized its work by establishing three government-owned, non-profit making corporations, headed by leading businessmen, to administer the armaments program.²⁶ It also instituted a Wartime Industries Control Board, with almost unlimited powers over the steel, metals, timber and oil industries.²⁷ By August 4, Canada's expenditure on creation or extension of plant facilities for war materials amounted to \$120,000,000 and was expected to reach \$170,000,000 in the im-

mediate future.²⁸ Eight Canadian factories received orders for 3,200 planes, of which 257 have been delivered.²⁹ Canadian plants, closely coordinated with those of Great Britain and the United States, were expected — perhaps too optimistically — to produce 360 planes monthly by early 1941. According to the Munitions Minister, Canada's production of mechanized transport units of various kinds has already reached an output of 600 daily, and is expected to increase rapidly. Orders have been placed for 300 tanks, which it is hoped will be produced at an output of 30 monthly. As a result of this acceleration of arms production and the placing of new orders, Canada's industrial activity improved markedly during June and July, particularly with regard to steel output, which reached a record peak.³⁰

Labor. Perhaps the most striking effect of the war effort has been the steady reduction in unemployment to the lowest point since 1929.³¹ The four-month period, January-April 1940, showed 381,000 wage-earners unemployed, or 14 per cent of total available labor, in contrast to 129,000, or five per cent, in 1929, and 710,000, or 30 per cent in 1933. The official index of employment for the first six months was the highest in Canadian history, though May and June were slightly below the 1929 level. No general scarcity of labor is yet in prospect, but shortages of skilled workmen are reported in many industries, which are beginning to train apprentices.

In order to protect the rights of labor during war-time production, to make military conscription more palatable, and to prepare for a "post-war" depression, the government proclaimed a set of principles for avoidance of labor disputes and instituted a system of unemployment insurance. Under an Order-in-Council made public on June 20, 1940, the government reaffirmed the right of unionization and collective bargaining, advocated that "fair and reasonable standards of wages and working conditions should be recognized," and warned against any undue extension of hours of work.³² The Order-in-Council declared that "there should be no interruption in productive or distributive operations on account of strikes and lock-outs," and stated that all disputes should be settled through government conciliation agencies. The Or-

22. The British government, for example, placed an order in Canada for 100 tanks early in 1940 and then cancelled the order in May, without sending further instructions. Address by Mr. C. D. Howe, Minister of Munitions and Supply, May 28, 1940. *The Gazette*, May 23, 1940.

23. *House of Commons Debates*, July 11, 1940, vol. 78, no. 19 (unrevised), pp. 716-17.

24. C. M. Short, "Canada's Great Defense Program Gaining Momentum," *The Annalist*, July 18, 1940, p. 80.

25. For a brief survey, cf. "Canada Building War Plans Anew," *Business Week*, June 15, 1940; also *The Christian Science Monitor*, June 5, 1940.

26. *The Gazette*, July 29, 1940.

27. For text of Orders-in-Council establishing these Controllers, cf. *The Canada Gazette*, August 20, 1940, vol. 74, no. 17 (extra).

28. Announcement by Mr. C. D. Howe, Minister of Munitions and Supply, *The Gazette*, August 5, 1940.

29. Address by Mr. C. D. Howe, *House of Commons Debates*, July 30, 1940, vol. 78, no. 53 (unrevised), pp. 2260-67.

30. Cf. U.S. Department of Commerce, *Commerce Reports*, June 22, 1940, pp. 541-43, and July 20, 1940, pp. 617-18; *The Annalist*, July 25, 1940, pp. 116-17, and August 1, 1940, pp. 147-48; Bank of Montreal, *Monthly Review*, July 24, 1940.

31. Cf. Royal Bank of Canada, *Monthly Letter*, August 1940.

32. For text, cf. *The Canada Gazette*, June 20, 1940.

der constituted merely a set of principles, however, and provided no machinery for enforcement or penalties for violation.

An elaborate scheme of unemployment insurance was enacted by Parliament on July 30, 1940, providing that employers and employees contribute roughly equal amounts and that the government pay one-fifth of the total and assume the administrative costs.³³ The measure excludes persons earning more than \$2,000 annually, as well as those in certain professions; domestic service, and seasonal occupations, such as agriculture, forestry and lumbering. The income of the fund, covering 2,100,000 workers, is estimated at \$67,000,000 for 1941. In order to assure the Dominion government jurisdiction in this field, Parliament sent an address to the King, requesting that the British North America Act of 1867—the Canadian Constitution—be amended by the United Kingdom Parliament.³⁴ Similar legislation passed in 1935 under the Conservative government of Mr. R. B. Bennett was invalidated by the Privy Council, on the ground that the Dominion lacked specific power in this field.³⁵

Agriculture. In its agricultural policy, Canada has sought to provide Great Britain with adequate supplies without fostering the over-expansion that characterized the World War and led to severe maladjustments in the post-war period.³⁶ Great Britain has attempted, however, to rely as largely as possible on sources of supply within the British Isles, in order to conserve foreign exchange and shipping, and—for political purposes—to distribute its purchases as widely as possible throughout the Commonwealth, Latin America and elsewhere. Even though both Scandinavian and Balkan sources of foodstuffs have been virtually eliminated, Britain has not shifted its purchases to Canada sufficiently to avert serious difficulties in the wheat, fruit, bacon and dairy industries.

The problem of storing, marketing and selling wheat is rapidly becoming serious. On July 31, 1940 there was a carry-over of 273,100,000 bushels, and an estimated new crop of 400,000,000. Although this total was substantially reduced both by domestic consumption and by the sale of 100,000,000 bushels to the British government, an-

nounced on August 2,³⁷ the remaining surplus will be even larger than in 1939. The government on May 18 pegged the price on wheat futures at 70 cents and later pegged the cash price at slightly above that level.³⁸ On August 3, Parliament enacted a processing tax of 15 cents per bushel on all wheat entering into the manufacture of flour and other products for domestic consumption.³⁹ This measure, similar to the A.A.A. processing tax invalidated by the Supreme Court in 1936, will enable the government to compensate the grower for storing surplus wheat and help the Wheat Board to maintain the 70 cent price.

Foreign Trade. Despite the dislocations of the European war, Canada's foreign trade has reached remarkably high levels, particularly in recent months. Although the effect of the war was scarcely noticeable in the last four months of 1939, Canada's exports in the first quarter of 1940 totalled \$243,898,000, or 24 per cent over 1939. Its exports in May 1940, moreover, reached \$109,000,000—the highest figure since November 1929—and included large shipments of wheat and flour, military transport equipment, and pig iron to Great Britain.⁴⁰ Canadian imports, showing large increases of aircraft and equipment, machinery, steel, coal, and petroleum from the United States, totalled \$100,000,000 in May 1940. The war has affected Canada's foreign trade, however, in quality and direction as well as in total quantity. The Dominion's exports have shown marked increases in essential foodstuffs and raw materials, which have more than offset decreases in many manufactures, including automobiles, while its imports have shifted to war materials and manufactures.

Since Canada normally has an import surplus in its trade with the United States—averaging \$157,000,000 in the past three years—and makes interest and dividend payments amounting to about \$140,000,000, any war-time increase in its imports that is not balanced by similar increases in American tourist expenditures or other payments creates serious exchange difficulties.⁴¹ In addition to instituting strict exchange control at the outset of the war and placing the gold and foreign exchange reserves of the Bank of Canada behind the Foreign

33. Bill No. 98, introduced by the Minister of Labor, Mr. N. A. McLarty, *House of Commons Debates*, July 16, 1940, vol. 78, no. 43 (unrevised), pp. 1757-61.

34. For text, cf. *ibid.*, June 25, 1940, vol. 78, no. 29 (unrevised), p. 1169.

35. Cf. Green, "Canada's Political Problems," cited, pp. 148-49.

36. For a detailed study of the Dominion's agricultural policy, cf. Clifford C. Taylor, "Canada's Wartime Agricultural Measures," U.S. Department of Agriculture, *Foreign Agriculture*, June 1940, pp. 333-54.

37. *The Gazette*, August 3, 1940. The British government's purchase disappointed Canadian grain trade circles, because it did not equal British consumption of Canadian wheat last year.

38. *Ibid.*, May 19, 1940.

39. *House of Commons Debates*, vol. 78, no. 57 (unrevised), pp. 2566-2600.

40. U.S. Department of Commerce, *Commerce Reports*, July 20, 1940, p. 618. All figures are in Canadian dollars.

41. Cf. "Credit Position of Canada," *Bulletin No. 111*, Institute of International Finance of New York University, August 5, 1940.

Exchange Control Board on April 30, 1940,⁴² the government included a 10 per cent "exchange tax" on imports in its recent war budget. It also curtailed the travel of Canadian citizens in countries outside the sterling area by prohibiting the sale of American funds or export of Canadian dollars except for business, health, study and other approved purposes.⁴³

CANADA'S FUTURE POSITION

The war and its aftermath will markedly alter the economic and political life of Canada, especially regarding its relations with Great Britain and the United States.⁴⁴ The conference of Prime Minister Mackenzie King and President Roosevelt near Ogdensburg, New York, on August 17-18 resulted in the establishment of a Permanent Joint Board for Defense, composed of five military and civilian representatives from each country authorized "to commence immediate studies relating to sea, land and air problems . . . and consider in the broad sense the defense of the North half of the Western Hemisphere."⁴⁵ These powers of the Joint Board, which held its first meeting in Ottawa on August 26, are so far-reaching that the Ogdensburg conference—concluded exactly two years after President Roosevelt's guarantee of Canadian territorial integrity at Kingston, Ontario—seems destined to go down as one of the historic moments in both British Empire relations and American diplomacy. The Canadian-American defense discussions, moreover, took place simultaneously with negotiations between Great Britain and the United States concerning the acquisition of naval and air bases in British possessions in the Western Hemisphere, and the proposed sale or transfer of 50 overage destroyers to aid in the defense of the British Isles.

Defense cooperation will create many new and

difficult problems in the relations of Canada and the United States, which have developed increasingly close ties in recent years. The Joint Board marks a novel step in American policy, involving an agreement between a neutral and a belligerent. The measure is equally unprecedented in British Empire affairs, in that it brings a Dominion into the orbit of Western Hemisphere diplomacy. It raises the larger issue of Canadian and American collaboration in general foreign policy during and after this war, for the United States is now intimately involved in the affairs of the British Commonwealth, and the extent to which Washington must assume responsibility for policies adopted in Ottawa and London.

In case of a British defeat, Canada—the only independent nation in the Western Hemisphere now at war with Germany and Italy—would have to make vital decisions regarding its future. It is conceivable that the King and British government might desire to take refuge in Ottawa in order to continue the war "from the periphery." Canada would then have to decide whether to become the center of the Empire and join with the other Dominions in seeking to rescue Britain—a decision which necessarily would be affected to a large extent by the attitude of the United States.

In case of a British victory or a prolonged stalemate, on the other hand, Canada's position in the British Commonwealth will probably be greatly enhanced. This conflict, like the World War, is stimulating Canadian industry and may eventually lead to considerable immigration from the British Isles, particularly in the event of widespread devastation and impoverishment. Canada's net foreign indebtedness, which declined from \$5½ billion to \$5 billion between 1930 and 1937, will probably be further reduced during the war, since the Dominion—like the United States in the World War—is repatriating its British-held securities. Such a tendency, if long continued, would make Canada less financially dependent on London and reduce its burden of overseas interest and dividend charges. Canada, moreover, is assuming responsibility for defense of Newfoundland and other British possessions in the Western Hemisphere. It is possible that this war, like the previous one, will be followed by a resurgence of nationalism in Canada and by a demand for greater authority in Empire councils.

42. *The Gazette*, May 1, 1940.

43. *The Christian Science Monitor*, July 19, 1940.

44. For a recent survey of the Dominion's domestic problems and external relations, cf. John MacCormac, *Canada: America's Problem* (New York, Viking, 1940).

45. *The New York Times*, August 19, 1940. The American members are Mayor F. H. LaGuardia of New York; Lieut. Gen. S. D. Embick, U.S. Army; Captain H. W. Hill, U.S. Navy; Commander F. P. Sherman and Lieut. Col. J. T. McNarney, alternating as Navy and Army air experts; and J. D. Hickerson, State Department. The Canadian members are O. M. Biggar; Brigadier K. Stuart, Army; Captain L. W. Murray, Navy; Air Commander A. A. L. Cuffe, Air; and H. L. Keenleyside, External Affairs Department.

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THE HAVANA CONFERENCE

By Howard J. Trueblood